

Message Text

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ACTION NEA-12

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FM AMEMBASSY CAIRO

TO SECSTATE WASHDC 5618

C O N F I D E N T I A L CAIRO 1133

E.O. 11652: GDS

TAGS: BEXP EG

SUBJECT: COMMENT ON EGYPTIAN SUEZ CANAL ASSISTANCE REQUEST

REF CAIRO 1132

1. IN CONNECTION WITH THE REFERENCED REQUEST, THE DEPT AND THE US NAVY ARE AWARE THAT A MURPHY PACIFIC SALVAGE CO. OF NEW YORK REPRESENTATIVE HAS SINCE LATE JANUARY BEEN DISCUSSING WITH SCA DIRECTOR MASHOUR A POSSIBLE SALVAGE CONTRACT FOR WRECKS IN SUEZ CANAL. OUR LAST COMMUNICATIONS ON THE SUBJECT WERE CAIRO 390 AND 421, BUT WE BELIEVE MURPHY PACIFIC REPRESENTATIVES MAY SINCE HAVE BEEN IN FURTHER TOUCH WITH CAPTAIN BOYD, CHIEF OF USN SALVAGE OPERATIONS. MURPHY'S COMPETITOR HAS BEEN THE JOINT GERMAN/DUTCH/YUGOSLAV FIRM OF HARMS AND BRODISPAS, WHICH HAD BEEN ENGAGED WITH THE EGYPTIANS IN SALVAGE DISCUSSIONS SINCE 1971. ALTHOUGH IT INITIALLY APPEARED THAT HARMS AND BRODISPAS WOULD GET THE CONTRACT, MURPHY PACIFIC WAS ABLE TO SUBMIT A LAST MINUTE COMPETITIVE BID.

2. AFTER ABOUT THREE WEEKS OF DISCUSSION, WE WERE RECENTLY TOLD BY THE VISITING MURPHY PACIFIC REPRESENTATIVE THAT HIS COMPANY WAS THE LOWEST BIDDER AND WAS ABOUT TO BE AWARDED THE CONTRACT. WE UNDERSTAND THAT US NAVY HELP MADE THIS POSSIBLE. SINCE THE EGYPTIANS ARE CHRONICALLY SHORT OF
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FUNDS, THEY HAVE SEIZED UPON THE PUTATIVE AWARD OF THE

CONTRACT TO AN AMERICAN COMPANY AS A MEANS OF GETTING THE
USG TO UNDERWRITE AND ASSIST IN THE PROJECT. HENCE,
FAHMY'S MEMORANDUM SUBMITTED IN REFTEL.

3. TWO OTHER PERTINENT DEVELOPMENTS NEED BE NOTED:
FIRST, THE VISITING MURPHY PACIFIC REPRESENTATIVE HAS NOW
SENT US A LETTER EXPRESSING CONCERN OVER HIS LOW TENDER
BECAUSE OF WHAT HE CALLS "AN UNEXPECTED INCREASE IN INSURANCE
COSTS" OVER THEIR ESTIMATED PREMIUMS AS INCLUDED
IN THE FIRM'S COST ESTIMATE. AS A RESULT, HE CLAIMS THERE
IS NOW NO ROOM FOR EITHER OVERHEAD RETURN OR PROFIT. CAPTAIN
BOYD ALLEGEDLY HAS THE FIRM'S ORIGINAL ESTIMATES OF
THE JOB. HE CLAIMS THAT AS A RESULT OF THE \$600,000 INCREASE
IN INSURANCE PREMIUMS, PRIMARILY FOR WAR RISK COVERAGE ON THE
NEEDED LIFT SHIPS, THE FIRM'S COST ESTIMATE
HAS NOW BEEN RAISED TO SIX MILLION DOLLARS. THE EGYPTIANS
HAVE APPARENTLY TOLD MURPHY PACIFIC THAT THEY HAVE ASKED
THE USG TO CONSIDER FINANCING THE REMOVAL. IF THE USG WILLING
CONSIDER SUCH FINANCING, MURPHY PACIFIC PROPOSES THAT IT
"...DO THE JOB UNDER OUR US NAVY CONTRACT PROVISIONS WHICH
ARE DESIGNED FOR THIS PURPOSE." FAILING THIS, THEY CONTEND
THEY WILL BE FORCED TO WITHDRAW UNLESS RELIEF CAN BE
OBTAINED IN THE FORM OF ABOUT \$600,000 COST REDUCTION IN
NAVY CHARGES AGAINST THE FIRM.

4. IN A SECOND RELATED DEVELOPMENT, THE GERMAN AMBASSADOR
CALLED ON ME TWO DAYS AGO TO RAISE THE SUBJECT.
HE RECALLED HARMS AND BRODISPAS HAD BEEN DISCUSSING THIS
SALVAGE PROJECT WITH THE EGYPTIANS FOR PAST THREE YEARS AND
SHOWED ME A LETTER, DATED JAN 24, IN WHICH THE SCA DIRECTOR
INFORMED THE COMPANY THEY WOULD BE AWARDED THE JOB AND A
CONTRACT WOULD BE SIGNED SHORTLY. AT ABOUT THAT
TIME MURPHY PACIFIC ENTERED THE PICTURE. AS A RESULT
OF SHARP COMPETITIVE BIDDING, THE SCA HAD A FEW DAYS AGO NOW
INFORMED HARMS AND BRODISPAS THAT IT WILL NOT GET THE JOB
BECAUSE THE USG WILL SUPPORT THE MURPHY PACIFIC OPERATION. I
POINTED OUT TO THE GERMAN AMBASSADOR THAT COMPETITIVE
BIDDING BETWEEN COMMERCIAL FIRMS MUST BE EXPECTED, AND
ACKNOWLEDGED THAT MURPHY PACIFIC HAS BEEN WORKING WITH THE
US NAVY ON ITS PROJECT. I TOLD HIM IT WAS MY UNDERSTANDING,
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HOWEVER, THAT THE NAVY WAS CHARGING MURPHY NORMAL LEASING
RATES. I ADDED THAT FORMAL EGYPTIAN REQUEST HAD WITHIN
THE LAST WEEK BEEN MADE OF THE USG TO ASSUME COSTS OF THE
MURPHY OPERATION, BUT THAT I WAS STILL IN THE PROCESS OF
SUBMITTING THIS AND COULD NOT PREDICT WHAT USG REACTION
WOULD BE.

5. COMMENT: THREE AVENUES OF APPROACH SEEM OPEN TO

US: A. WE CAN ACCEPT THE EGYPTIAN REQUEST TO DO THE SALVAGE JOB, EITHER USING THE US NAVY OR MURPHY PACIFIC; B. WE CAN ATTEMPT TO REDUCE MURPHY PACIFIC'S EXPENSES BY LOWERING NAVY FEES, WAIVING INSURANCE IF POSSIBLE, OFFSETTING MURPHY PACIFIC COSTS IN OTHER WAYS, AND TRYING TO MAXIMIZE CREDIT LOCALLY; OR C. WE CAN REJECT THE REQUEST OR ALLOW POSSIBLE CONTRACT TO A US FIRM TO GO BY DEFAULT.

6. WHATEVER DOUBTS THERE MAY BE IN SOME QUARTERS ABOUT THE DESIRABILITY OF THE SUEZ CANAL BEING REOPENED, WE MUST RECKON WITH THE FACT THAT IT WILL BE REOPENED WHETHER OR NOT WE ASSIST. IF WE MOVE FORWARD WITH OPTION A, WE WILL AT A RELATIVELY NOMINAL COST TO THE USG OBTAIN THE FULL BENEFITS OF ASSOCIATION WITH A PROJECT LONG LINKED IN THE PUBLIC EYE WITH THE RESTORATION OF PEACE IN THE MIDDLE EAST AND THE REESTABLISHMENT OF A TRADE ROUTE IMPORTANT TO THE ECONOMY OF MANY NATIONS. EXPEDITIOUS SALVAGE OPERATIONS TO FACILITATE THE REOPENING OF THE CANAL IS AS MUCH IN THE USG AND ISRAEL'S INTEREST AS IT IS IN EGYPT'S.

7. IT IS BECOMING OBVIOUS THAT THE EGYPTIANS, GIVEN THEIR CURRENT ECONOMIC SITUATION, ARE GOING TO GREAT LENGTHS TO HAVE THE CANAL JOB DONE ON AS CLOSE TO A COST-FREE BASIS TO THEMSELVES AS POSSIBLE. WHERE THIS APPROACH MIGHT LEAD I AM NOT SURE. GIVEN THE ISSUES AT STAKE, IT APPEARS WE SHOULD EITHER TRY TO MEET THEIR REQUEST OR AT LEAST ASSIST MURPHY PACIFIC TO THE EXTENT POSSIBLE TO DO THE JOB.

8. PLEASE ADVISE ASAP WHAT I MAY TELL FAHMY ON THIS MATTER.

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